

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PM-03 H-02 L-03 PA-02 PRS-01 /114 W

----- 003080

R 081847Z AUG 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3665

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 12299

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 8

BEGIN SUMMARY: EVIDENCE OF BRITAIN'S DEEPENING RECESSION

CONTINUED TO SURFACE THIS WEEK. BRITISH BUSINESS OPIN-

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ION ABOUT THE PATH THAT THE ECONOMY IS LIKELY TO TAKE

OVER THE NEXT 9 TO 12 MONTHS WAS VERY NEGATIVE ACCORDING TO A CBI SURVEY RELEASED THIS WEEK. END SUMMARY.

1. BRITISH INDUSTRY SEES RECESSION CONTINUING:

THE CONFEDERATION OF BRITISH INDUSTRY HAS PUBLISHED ITS QUARTERLY SURVEY OF INDUSTRIAL TRENDS. THE MAIN FEATURES OF THE SURVEY ARE:

1. PESSIMISM ABOUT THE GENERAL BUSINESS SITUATION REMAINS WIDESPREAD;
2. INVESTMENT INTENTIONS ARE WEAK, ALTHOUGH NOW DETERIORATING LESS RAPIDLY;
3. BELOW-CAPACITY WORKING, AFFECTING THREE-QUARTERS OF MANUFACTURING INDUSTRY, IS MORE GENERAL THAN DURING THE "THREE-DAY WEEK" OR AT ANY TIME IN THE 1960'S;
4. LACK OF ORDERS OR SALES THREATENS TO LIMIT PRODUCTION FOR MORE THAN EIGHT OUT OF TEN FIRMS;
5. FIRMS ARE REDUCING EMPLOYMENT ON A SCALE NOT SEEN BEFORE IN THE SURVEY;
6. UPWARD PRESSURE ON UNIT COSTS AND PRICES CONTINUES, ALTHOUGH IN THE LATTER INSTANCE AT LEAST THE TREND APPEARS TO BE EASING SLIGHTLY;
7. CONFIDENCE ABOUT EXPORT PROSPECTS OVER THE NEXT TWELVE MONTHS IS NOT MARKED;
8. SHORT-TERM TRENDS IN THE VALUE OF NEW EXPORT ORDERS ARE UNFAVOURABLE;
9. NEW EXPORT ORDERS WILL BE LIMITED FOR THE MAJORITY OF EXPORTERS BECAUSE OF RELATIVE PRICES AND/OR POLITICAL OR ECONOMIC CONDITIONS ABROAD;
10. IN ADDITION TO SPECIFIC ANSWERS, MANY PARTICIPANTS AGAIN WROTE IN GENERAL TERMS OF THE EXCEPTIONALLY DIFFICULT CLIMATE WITHIN WHICH TO RUN A COMPANY.
11. THE POLICY IMPLICATIONS ARE:
 - (A) THAT THERE IS AN OVERWHELMING NEED FOR THE ATTACK ON INFLATION TO SUCCEED; AND
 - (B) THAT THERE SHOULD BE NO GENERAL REFLATION OF DEMAND.

IN THE LIGHT OF ITS FINDINGS THE CBI CONCLUDES "THE MESSAGE NOW IS BASICALLY A SIMPLE ONE. IF INFLATION IS BROUGHT UNDER CONTROL MANUFACTURING EMPLOYMENT WILL STILL FALL OVER THE IMMEDIATE FUTURE BUT LESS RAPIDLY, WITH A UNCLASSIFIED

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TANGIBLE PROSPECT OF RECOVERY THEREAFTER. IF INFLATION IS NOT BROUGHT UNDER CONTROL THE CONSEQUENCES FOR EMPLOYMENT, INVESTMENT AND THE BALANCE OF PAYMENTS WILL BE WORSE TO A DEGREE CONSIDERABLY BEYOND POST-WAR EXPERIENCE.

2. LID PLACED ON SPENDING BY LOCAL GOVERNMENT AUTHORITIES:

THE GOVERNMENT ANNOUNCED ITS INTENTION OF PERMITTING

NO INCREASE OVER 1975-76 LEVELS (IN REAL TERMS) IN EXPEN-1
DITURES OF LOCAL GOVERNMENT AUTHORITIES DURING THE 1976-
77 FISCAL YEAR. THIS FREEZE IS BEING IMPOSED SINCE
THESE EXPENDITURES HAVE ALREADY INCREASED IN REAL TERMS
AT ABOUT THE LEVEL FORECAST FOR NEXT YEAR. INDIVIDUAL
LOCAL GOVERNMENT COUNCILS WILL HAVE TO DECIDE WHERE THE
NECESSARY CUTS WILL BE MADE. IF THESE CUTS ARE NOT FORTH-
COMING INCREASES IN LOCAL TAXES ARE LIKELY TO BE UNAVOID-
ABLE.

3. CLEARING BANKS INCREASE BASE LENDING RATE:
THE FOUR PRINCIPAL LONDON CLEARING BANKS INCREASED
THEIR BASE LENDING RATES BY 0.5 PERCENT TO 10 PERCENT.

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PM-03 H-02 L-03 PA-02 PRS-01 /114 W
----- 003112

R 081847Z AUG 75
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3666
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
91/AMEMBASSY THE HAGUE 6253
AMEMBASSY TOKYO
AMCONSUL BELFAST

AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC

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THIS IS THE FIRST CHANGE IN THE RATE SINCE LAST APRIL.
IT MEANS THAT PRIME BORROWERS WILL NOW HAVE TO PAY AT
LEAST 11 PERCENT. THE CLEARING BANKS' ACTION WAS EXPECTED
IN THE WAKE OF THE INCREASE IN THE MINIMUM LENDING
RATE BY THE BANK OF ENGLAND AT THE END OF LAST WEEK.
THE BANKS ALSO RAISED THE INTEREST RATE PAID ON TIME DE-
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POSITS BY 1/4 PERCENT TO 6.5 PERCENT. THIS INCREASES
THE SPREAD BETWEEN THE PRICE AT WHICH THE BANKS BUY AND
SELL MONEY. THIS SHOULD RESULT IN STRENGTHENED PROFIT
MARGINS.

4. UK CAR SALES AT 16 YEAR LOW:

JULY SALES OF CARS MANUFACTURED IN THE UK FELL 28.5
PERCENT FROM THE JULY 1974 LEVEL. AT THE SAME TIME SALES
OF IMPORTED CARS INCREASED BY 12.9 PERCENT AND ACCOUNTED
FOR NEARLY A THIRD OF TOTAL AUTOMOBILE SALES.

5. OFFICIAL RESERVES:

UK OFFICIAL RESERVES SHOWED AN INCREASE OF \$61 MIL-
LION DURING JULY. THIS FOLLOWED RESERVE LOSSES OF \$293
MILLION AND \$641 MILLION DURING JUNE AND MAY RESPECTIVE-
LY, WHICH WAS REPORTEDLY DUE TO HEAVY BANK OF ENGLAND
INTERVENTION IN THE FOREIGN EXCHANGE MARKETS IN SUPPORT
OF THE POUND. THE INCREASE IN JULY RESULTED AFTER ACCRU-
ALS OF FOREIGN CURRENCY BORROWING BY THE PUBLIC SECTOR
UNDER THE EXCHANGE COVER SCHEME TOTALING \$69 MILLION.
PUBLIC SECTOR BORROWING IN THE FIRST SEVEN MONTHS OF 1975
HAS TOTALED \$546 MILLION (PLUS AN ADDITIONAL \$1,000 MIL-
LION OFFICIAL GOVERNMENT BORROWING) COMPARED TO \$1,852 MIL-
LION DURING THE FIRST SEVEN MONTHS IN 1974. AT THE END
OF JULY 1975, UK OFFICIAL RESERVES STOOD AT \$6,259 MIL-
LION EQUIVALENT COMPARED TO \$6,680 MILLION EQUIVALENT A
YEAR EARLIER.

6. STERLING WEAKNESS:

AS THE DOLLAR CONTINUED TO STRENGTHEN FOREIGN EX-
CHANGE MARKETS, THE POUND CAME UNDER STRONG DOWNWARD PRES-
SURE. OVER THE WEEK, THE VALUE OF STERLING, IN TERMS OF
DOLLARS, DEPRECIATED AN ADDITIONAL 2-1/4 PERCENT. BUT

UNLIKE THE ACTIVITIES WITNESSED LAST WEEK, THE POUND ALSO
WEAKENED CONSIDERABLY AGAINST THE CONTINENTAL CURRENCIES,
WITH THE TRADE WEIGHTED AVERAGE DEPRECIATION WIDENING AN
ADDITIONAL 1.6 PERCENT OVER THE WEEK (7/31 THRU 8/7).
PRESS REPORTS INDICATE THAT GOVERNMENT OFFICIALS ARE
NOT NECESSARILY UPSET BY THE LATEST DECLINE, ESPECIALLY
AGAINST THE CURRENCIES OF EEC TRADING PARTNERS, SINCE THE
RECENT STRENGTH AGAINST THESE CURRENCIES WOULD HAVE MEAS-
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URABLEEFFECT ON THE TERMS OF TRADE AND EXPORT COMPETITION.

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CEA-01 DODE-00 PM-03 H-02 L-03 PA-02 PRS-01 /114 W

----- 003294

R 081847Z AUG 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3667

INFO AMEMBASSY BERN

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7. (DATES) 7/31 8/7 CHANGE
EXCHANGE RATE \$2.1537 \$2.1055 DOWN \$0.0482
EFFECTIVE DEPRECIATION
(PERCENT) 26.2 27.8 WIDENED 1.6
GOLD \$166.90 \$165.37 DOWN \$1.53
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8. FORWARD DISCOUNT ON STERLING:
(DATES) 7/31 8/7 CHANGE
1 MONTH 0.82 0.82 UNCHANGED
3 MONTHS 2.27 2.32 UP 0.05
6 MONTHS 4.25 4.40 UP 0.15
(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES;
(DATES) 7/31 8/7 CHANGE
1 MONTH 6-3/8 6-3/4 UP 3/8
3 MONTHS 7 7-3/8 UP 3/8
6 MONTHS 8 8-1/4 UP 1/4

L0. LOCAL AUTHORITY DEPOSIT RATES:
(DATES) 7/31 8/7 CHANGE
1 MONTH 10-3/8 10-3/8 UNCHANGED
3 MONTHS 10-5/8 10-5/8 UNCHANGED
6 MONTHS 10-3/4 10-7/8 UP 1/8

LL. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11
PERCENT ON FRIDAY, AUGUST 8.

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